



Business Aviation Outlook Fractional Ownership and Jet Cards

Rollie Vincent
President
Rolland Vincent Associates

*34th Annual FAA Aviation Forecast Conference
Washington, D.C.
March 31 – April 1, 2009*

April 1, 2009

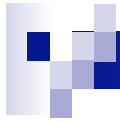
© 2009 Rolland Vincent Associates, LLC

1



Outline

1. 40° Below
2. The good news
3. What's next?



1. 40° Below



Source: New York Times, Dec. 25, 2008

April 1, 2009

© 2009 Rolland Vincent Associates, LLC

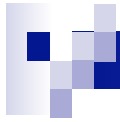
3



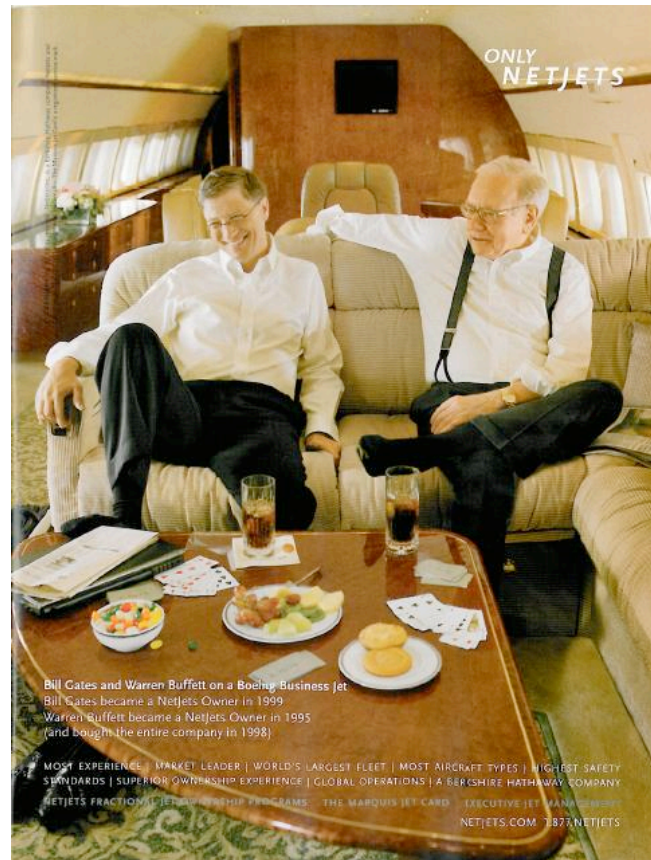
What it feels like at 40° Below

- U.S. unemployment rates up 40% since Aug. 2008
- Most people's 401(k) plans down 40%
- New housing starts down 51% Feb. 2009 YOY
- Real issues facing individuals and families

- Maslow was right



Who else lost 40% in 2008?



April 1, 2009

© 2009 Rolland Vincent Associates, LLC

5



Worldwide bizjet market conditions

- Supply / Demand: An ocean of aircraft to be sold
 - Almost 3,000 jets for sale / 17% of fleet
 - Pre-owned listings up 69% year-over-year
- Prices: Can't find a floor
 - \$1M drop in XLS prices in a month??
 - \$11M only-flown-on-Sunday CL604s??
 - \$23M gently-owned GVs??
- Financing: ~~Yes We Can~~ Just Say No!

Sources: UBS March 19, 2009; NARA March 26, 2009



U.S. business jet flight activity

In February 2009 (year-over-year)

- Large-cabin business jets down 41%
- Part 91K (fractional) down 28%
- Part 135 (charter) down 47%

Source: ARG/US – March 2009



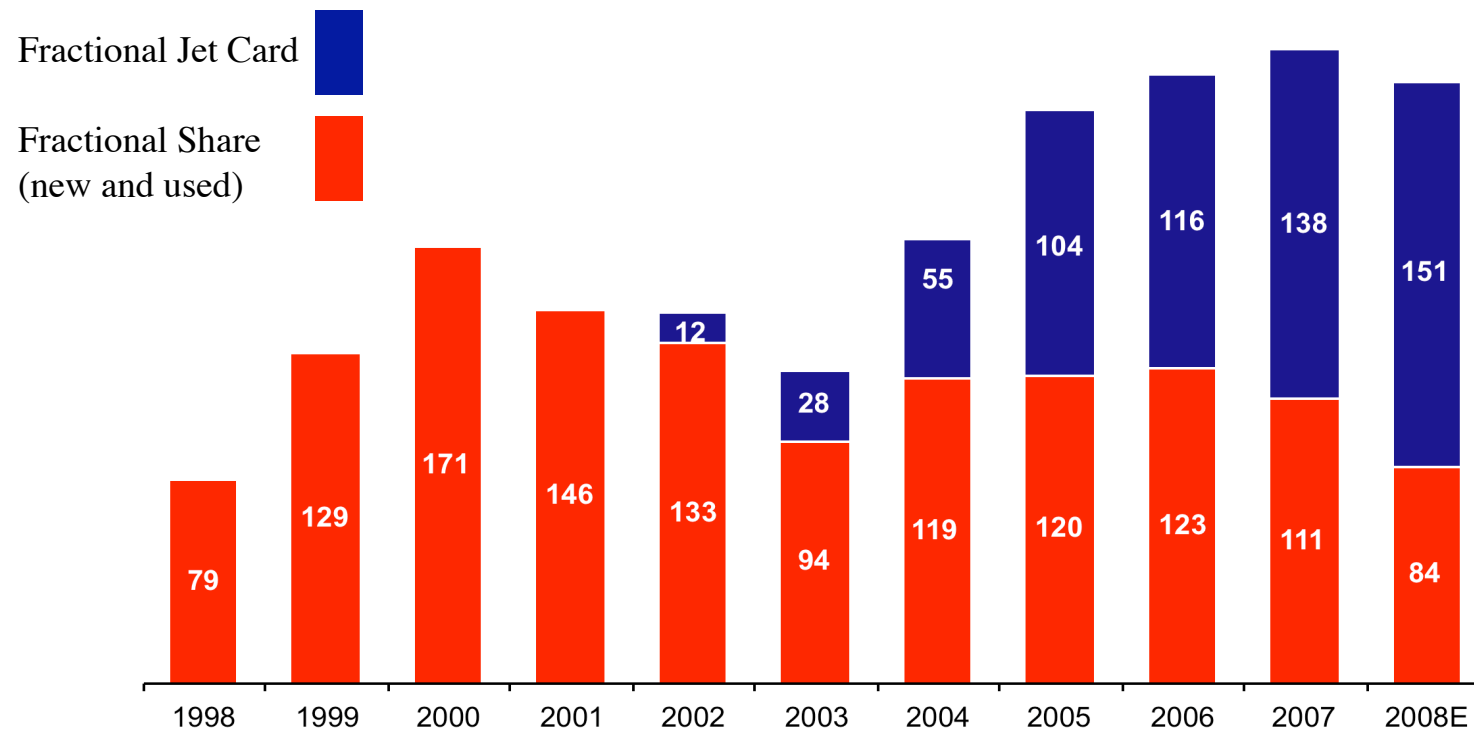
Fractional market update

- Sales peaked in 2007
- Sales weakened throughout 2008, evaporating in Q4
- Very few new buyers coming in
- Price premiums have vanished
- Early and term exits are spiking
- Customer retention programs in place to protect fees
- Rapid drop in FMVs across industry
- Large mark-to-market adjustments for unsold / core fleet
 - \$54M at NetJets in 2008
- Active fleet and labor cost management underway



U.S. fractional industry sales

Number of fractional aircraft sold & delivered



Source: FAA, JETNET, published reports, RVA market analysis

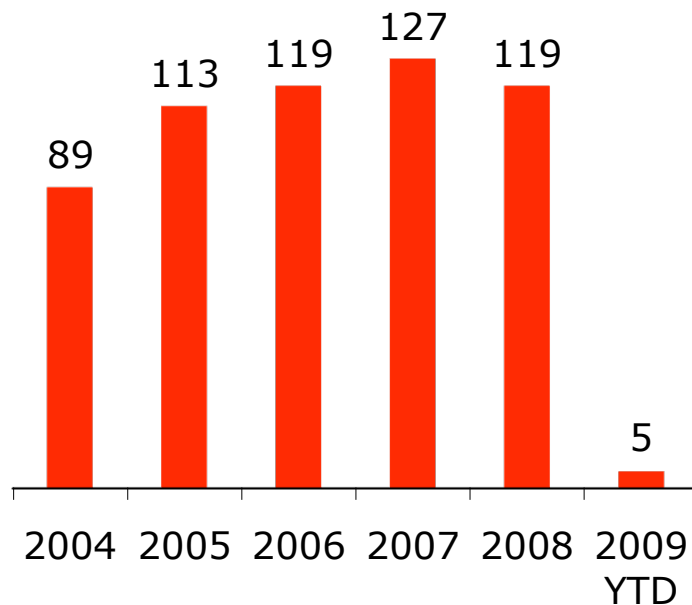
April 1, 2009

© 2009 Rolland Vincent Associates, LLC

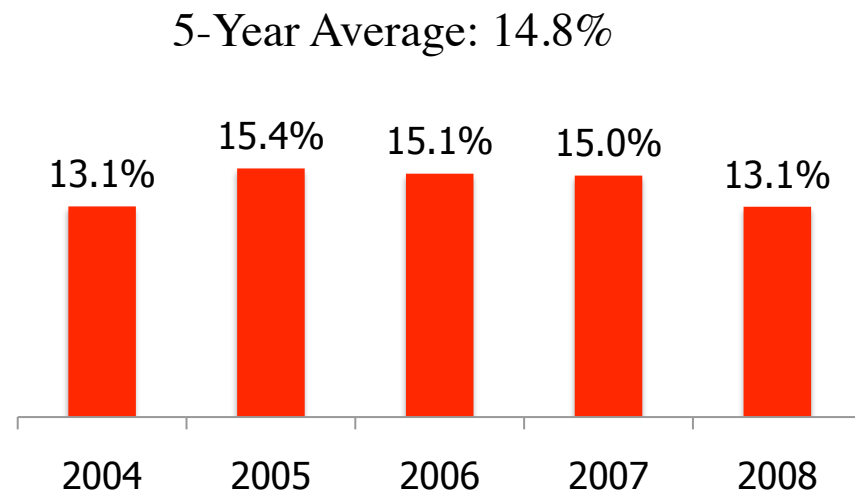


Total fractional business jet deliveries

New deliveries (units)



New deliveries (% of total)

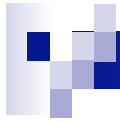


Source: JETNET; includes NetJets U.S., NetJets Europe, Flexjet, Flight Options, CitationShares, and XOJet; excludes VLJs

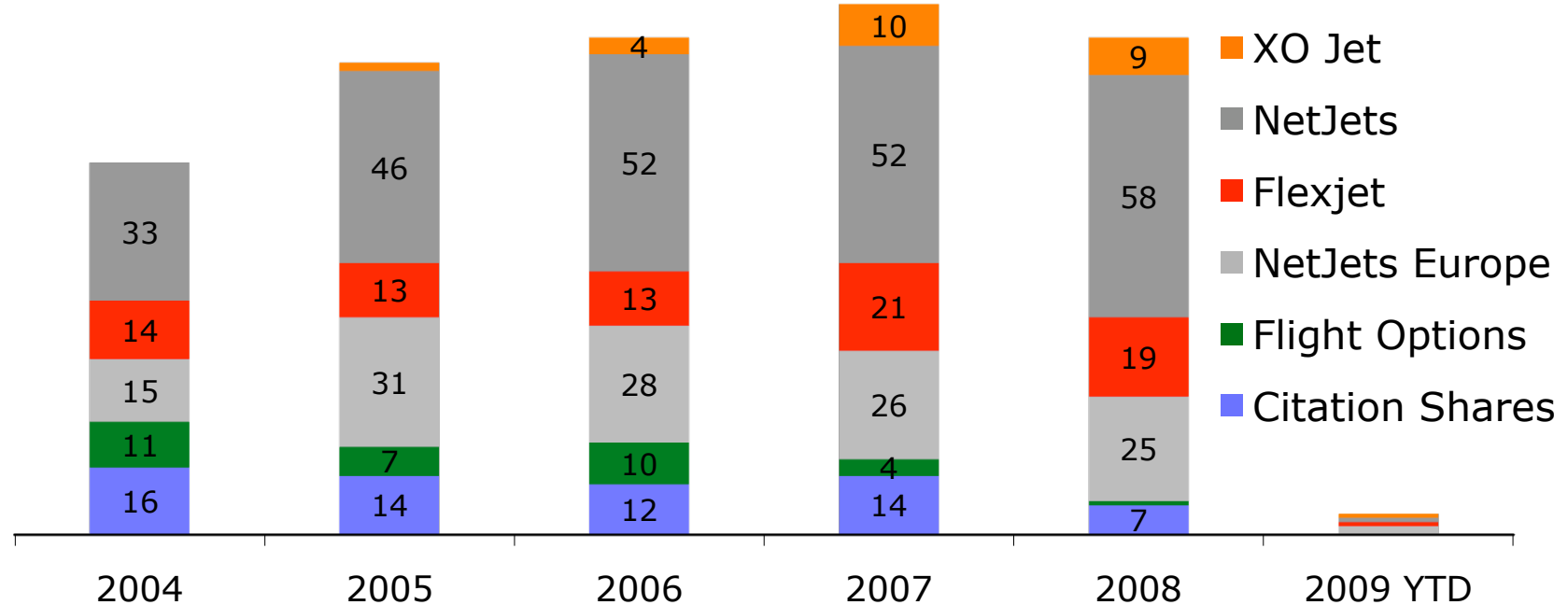
April 1, 2009

© 2009 Rolland Vincent Associates, LLC

10



New business jet deliveries (units)



Source: JETNET; delivery units to six main fractional jet operators only

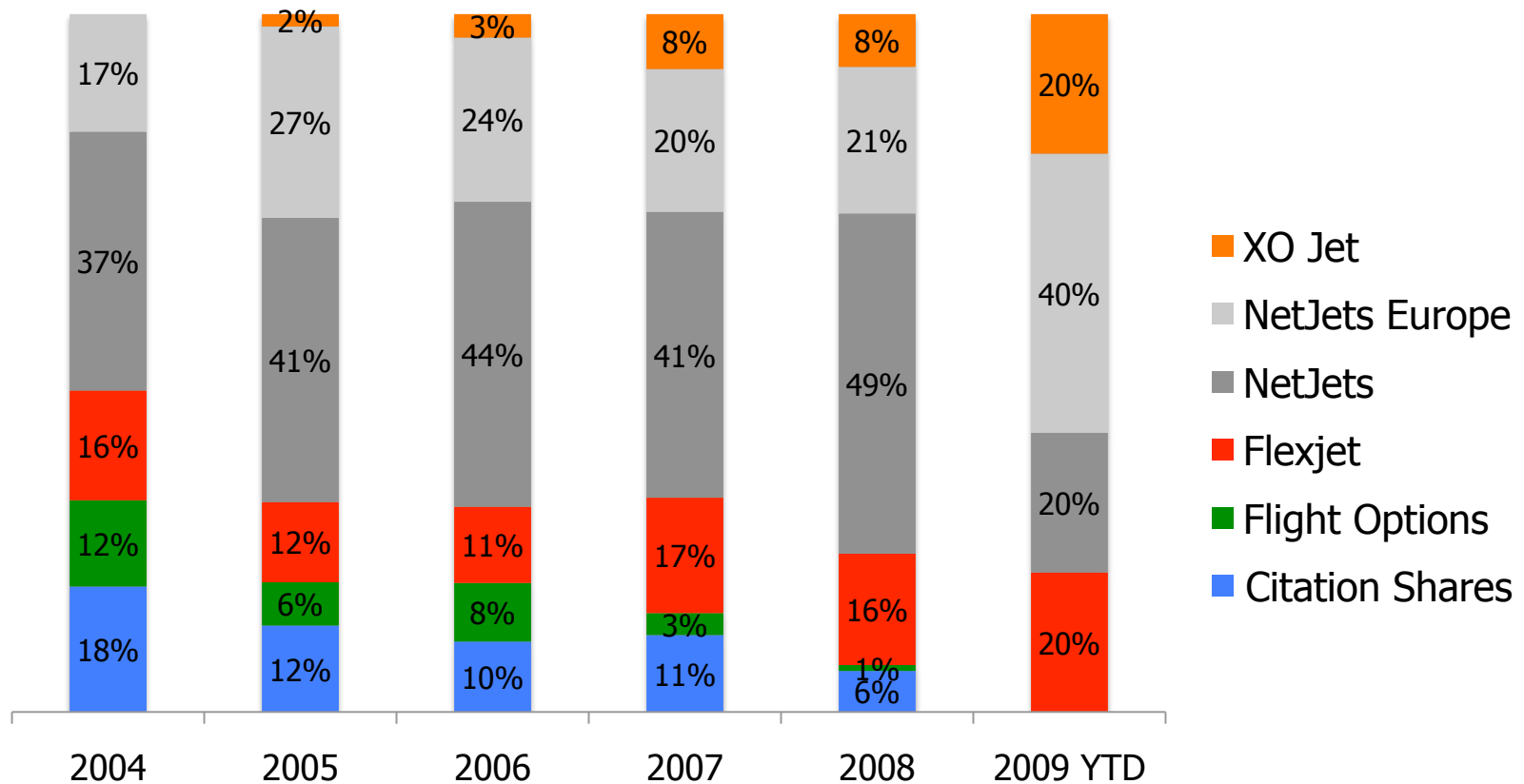
April 1, 2009

© 2009 Rolland Vincent Associates, LLC

11



New business jet deliveries (% of total)

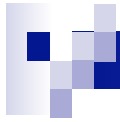


Source: JETNET; delivery units to six main fractional jet operators only

April 1, 2009

© 2009 Rolland Vincent Associates, LLC

12



NetJets – industry benchmark

- 7,945 people, 702 aircraft
- 60% of new delivery units in 2008 (70%+ of delivery value)
- Has captured 90% of long-haul large cabin market
- NetJets U.S. XLS fleet / NetJets Europe fleet
 - 50% larger than entire fleet of strongest competitor
- Partner Marquis Jet has 70% share of U.S. fractional jet card market
- Delivery cancellations / deferrals impacting OEMs
 - Estimates suggest 40 Citations / 75 Hawkers deferred
 - Gulfstream? / Dassault?
- Lower earnings in 2008, significant reduction in revenue in Q4 2008
- Has contractual commitments to purchase up to 556 aircraft through 2018





2. The good news



Source: New York Times, Dec. 25, 2008



The good news about fractionals

- Safety is very high
- Service is very good
- The people are really nice
- The planes are really fast
- The customers are pretty happy
- Scotty never did beam anybody up (except on TV)
- Time – the asset in least supply



The good news about fractionals

- There are no speculative buyers to weed out
 - Up-front capital, significant monthly fees
- Flight departments are opening up to the potential benefits
- Election campaign proved the worth of private aviation
 - 3 speeches, 3 cities, 1 day



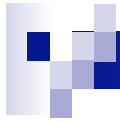
The good news: we know what works

- Most operators make their money buying and selling aircraft
- Few have figured out how to make money operating aircraft
- Learning how to operate efficiently at scale takes 7-10 years
- Subscription-based margins provide security in difficult times



The good news about the affluent

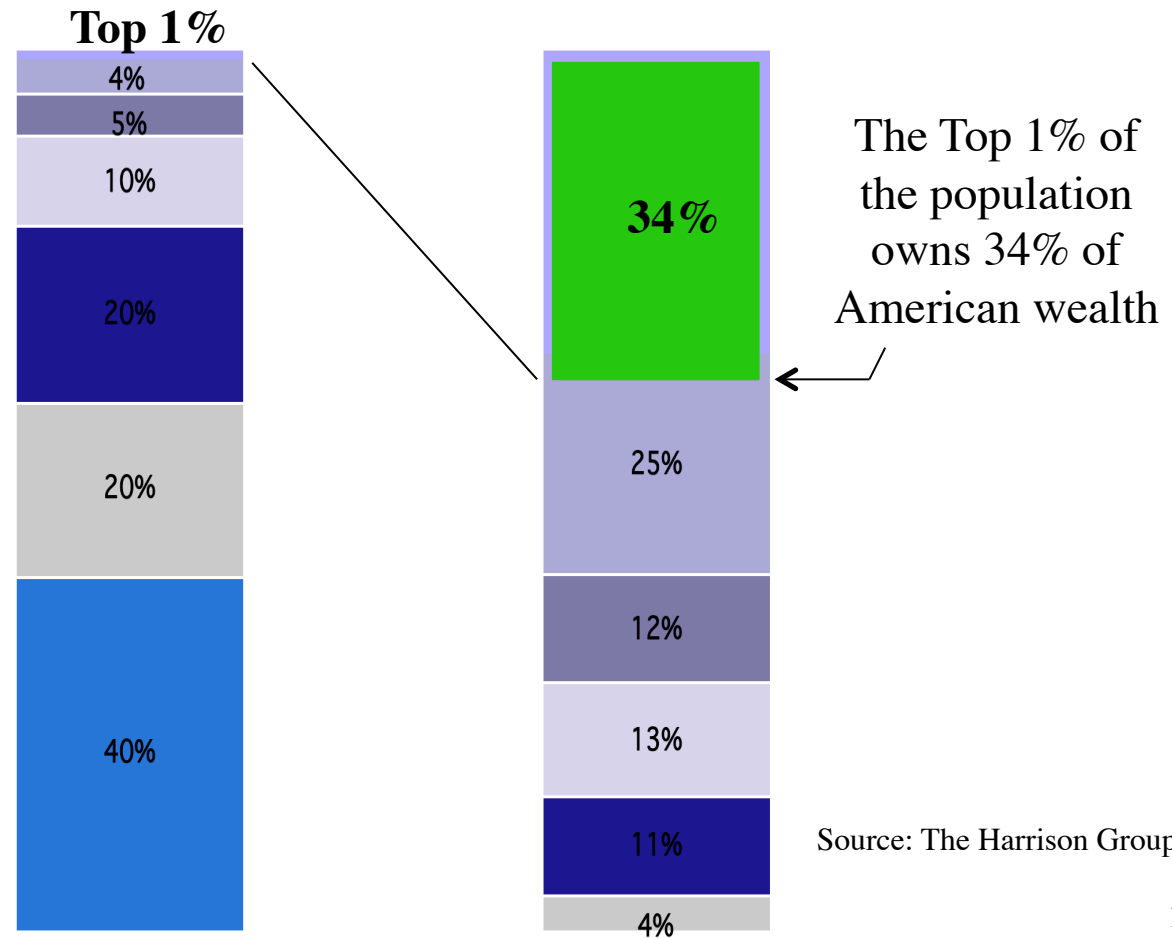
- Driven, entrepreneurial, intelligent
- Fast thinking, fast acting
- Self-aware
- Philanthropic
- Want to make a positive difference – leave a legacy
- Uncomfortable with their portrayal in some media
- Entrepreneurs see these markets as an opportunity



How The Other 1% Lives

% of U.S. population

% of U.S. assets



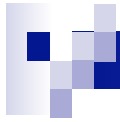
Source: The Harrison Group, 2008



3. What's next?



Source: New York Times, Dec. 25, 2008



Health, wealth, and happiness

- You'll know we've begun to rebound when:
 - Used prices stabilize
 - Used inventories start declining
 - Brokers and bankers like each other again
 - Flight activity rebounds at Teterboro
 - Residual value guarantees and other deals go away



Weather outlook: Mostly sunny.....

- Unsurpassed fractional safety and service levels
- Pricing and service innovations
- Policy initiatives to encourage capital investment
- Discretion of 'QS' tail number
- Jet card demand appears to be continuing
 - Jet card customers largely invisible / difficult to track



.....with a chance of rain

- U.S. GDP down 6.2% in Q4 2008
 - Hard hit: exports, consumer spending, housing, business investment
- Eurozone GDP down 1.5% in Q4 2008
 - German economic engine is sputtering
 - Government revising growth forecast to -4.5% in 2009
 - Commerzbank thinks it will be -7% in 2009
- No signs of credit market rebound (Just say NO!)
- Used business jet inventory still climbing
- New behaviors amongst affluent / corporations
 - Image management
 - “If you’ve got it, don’t flaunt it”



If Warren Buffett says so.....

- “Amid this bad news, never forget that our country has faced far worse travails in the past....our economic system has worked extraordinarily well over time....America’s best days lie ahead.”



Berkshire Hathaway Annual Report, 2008



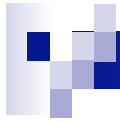
Customers (demand-side)

- Most customers who had to exit have already done so
- Customer retention is now the name-of-the-game
- Increase in trickle-down demand from flight departments
- Customer shift to jet cards / branded by-the-hour solutions
 - Preservation of capital / ease of exit if necessary
- New business origination will remain tough w/o lower prices



Operators (supply-side)

- Contract negotiations with manufacturers/customers
- Seeking new sources of aircraft financing
- Internationalization (e.g. NetJets Europe)
- OEMs who own operators will get out of this business
 - CitationShares, Flexjet look like great partners for someone
 - Good time to buy – but will the OEMs want to sell?
- New operators with small fleets or no aircraft should partner with or purchase successful existing operators
- OEM order backlogs with new operators are at risk



Operators (supply-side)

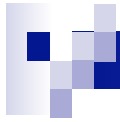
- Actions (now / this year)
 - Defer / cancel new aircraft deliveries
 - Park / retire aircraft from fleet
 - Furlough / layoff crews first, then support staff
 - Cut overhead / G&A costs
 - Write-down the values of their core fleet



What's next for fractionals?

“You can't improvise on nothing man,
you gotta improvise on something.”





What's next for fractionals?

- Simplified prices
- Simplified contracts
 - ~~60 page contract~~ 6-page contract
- Euro-style product / service innovation
 - Concierge convenience and service
 - Style / design sells, and people will pay for it
 - Branded by-the-hour jet solutions



Darwin was right

- The strong will survive
 - If they weren't making money last year.....
- Order backlogs probably not worth paper they were written on
- Price war breaking out
 - War in Afghanistan is not the only one heating up
- Industry failures / consolidation wave looming
- Not a good time to be new to the game
 - Partner with/purchase someone who knows how to make \$\$\$



How to identify the survivors

Who is taking the longer view?

- Safety and maintenance standards / performance
- Customer relations
 - Flexibility in negotiations
 - Satisfaction and referral rates
- People relations
 - How are they managing their downsizing?
- Financial performance
 - Short-term cost management
 - Longer-term capital investment



40° Above?

NetJets investing more than \$40M in Egelsbach Airport
in Germany (6 miles from FRA)





Delivery outlook: Rocky times ahead

- 40% delivery drop this year to fractional operators
- Flat through 2012 (U-shaped recovery)
- 40% shift of demand to international markets
- Return to recent historical growth rates begins after 2012
- Return to 2007 demand levels sometime late in the decade





Rollie Vincent

President

Rolland Vincent Associates, LLC

7000 Independence Parkway, Suite 160-3

Plano, Texas 75025

Tel: 972-439-2069

rvincent@rollandvincent.com

